

Message Text

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43

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 AGR-20 DRC-01

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R 251622Z JUL 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 3967

LIMITED OFFICIAL USE SECTION 1 OF 2 BOGOTA 6577

EO 11652: NA

TAGS: PFOR EGEN CO

SUBJ: PRESENT STATUS OF COLOMBIAN ECONOMY AND PROSPECTS UNDER
PRESIDENT-ELECT LOPEZ

1. SUMMARY: THE LOPEZ ADMINISTRATION WHICH TAKES OFFICE ON
AUGUST 7 WILL INHERIT AN ECONOMY WHICH SHOWS CONSIDERABLE OVER-
ALL STRENGTH, BUT WHICH REQUIRES ADJUSTMENT TO COUNTER INFLATION
AND INCOME DISTRIBUTION PROBLEMS. IN ATTEMPTING TO FULFILL HIS
MANDATE FOR CHANGE, LOPEZ WILL RELY HEAVILY ON A WAGES AND
INCOMES POLICY AND ON FISCAL AND MONETARY REFORMS TO CONTROL
INFLATION AND IMPROVE INCOME DISTRIBUTION. AT THE SAME TIME,
HE WILL INHERIT A FISCAL SITUATION WHICH WILL, AT LEAST DURING
THE FIRST YEAR, SERIOUSLY LIMIT ANY NEW DEVELOPMENT INITIATIVES.
LOPEZ WILL PROBABLY ADOPT A SOMEWHAT TOUGHER, MORE NATIONALISTIC
STANCE IN INTERNATIONAL ECONOMIC AFFAIRS. TRADE RELATIONS ARE
EXPECTED TO REMAIN THE MOST IMPORTANT BILATERAL ISSUE IN LIGHT
OF COLOMBIA'S INCREASING LEVEL OF EXPORTS AND INTEREST IN THE US
MARKET. NO MAJOR CONTROVERSIES ARE FORESEEN IN THE AREA OF

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FOREIGN INVESTMENT. THE USAID PROGRAM WILL PROBABLY BE ALTERED

IN SIZE AND ORIENTATION TO CONCENTRATE ON SPECIFIC DEVELOPMENT

BOTTLENECKS RATHER THAN LARGE RESOURCE TRANSFERS.

2. CURRENT ECONOMIC SITUATION: IN TERMS OF GROWTH RATES THE COLOMBIAN ECONOMY IS PRESENTLY PERFORMING BETTER THAN IT EVER HAS AND THESE HIGH GROWTH RATES ARE LIKELY TO CONTINUE. THE FAVORABLE PANORAMA IS TEMPERED, HOWEVER, BY SERIOUS INFLATION AND INCOME DISTRIBUTION PROBLEMS. THE REAL INCREASE IN GDP HAS BEEN AROUND 7 PERCENT THE LAST TWO YEARS AND WILL PROBABLY BE AT ABOUT THE SAME LEVEL IN 1974. EXPORT PROMOTION ACTIVITIES, EXCHANGE CONTROL MECHANISMS. HIGH COMMODITY PRICES AND EXTERNAL BORROWING HAVE COMBINED TO REMOVE FOREIGN EXCHANGE WHICH HAMPERED THE ECONOMY THROUGH THE 1960'S. INDUSTRY, COMMERCE AND CONSTRUCTION SHOW STRONG GROWTH RATES. AGRICULTURE CONTINUES TO BE A PROBLEM AREA BUT IS DEMONSTRATING MODEST IMPROVEMENT FOLLOWING EARLIER DIFFICULTIES. MINOR EXPORTS CONTINUE TO EXPAND RAPIDLY AND ARE REDUCING THE COUNTRY'S TRADITIONALLY HEAVY DEPENDENCE ON COFFEE FOR FOREIGN EXCHANGE EARNINGS - ALTHOUGH COMMODITY PRICES MAY SOFTEN SOMEWHAT DURING THE NEXT SEVERAL YEARS. UNEMPLOYMENT APPEARS TO BE DECLINING AND DOMESTIC SAVINGS AND INVESTMENT HAVE HELD THEIR OWN DESPITE RAPID INFLATION.

THE ECONOMY IS NOT, HOWEVER, WITHOUT PROBLEMS. MONETARY EXPANSION AND POOR FISCAL PERFORMANCE HAVE CONTRIBUTED TO INFLATION LEVELS UNUSUALLY HIGH FOR COLOMBIA OVER THE PAST TWO YEARS. INFLATION HAS SIGNIFICANTLY REDUCED THE BENEFITS TO THE MASS OF THE POPULATION WHICH MIGHT HAVE RESULTED FROM ECONOMIC GROWTH. REAL WAGES HAVE APPARENTLY DECLINED AND INCOME DISTRIBUTION IS PROBABLY MORE IMBALANCED THAN SEVERAL YEARS AGO. THE MASSIVE MAJORITY OBTAINED BY PRESIDENT-ELECT LOPEZ IN THE APRIL ELECTIONS CLEARLY SUGGESTS THE DESIRE FOR CHANGE. THE MANDATE GIVEN THE LOPEZ ADMINISTRATION IS TO BRING INFLATION UNDER CONTROL AND PROVIDE MECHANISMS THROUGH WHICH MIDDLE AND LOWER CLASSES OBTAIN A GREATER SHARE OF THE RELATIVE PROSPERITY.

3. EXPECTED POLICIES OF PRESIDENT-ELECT: IN ATTEMPTING TO FULFILL HIS MANDATE LOPEZ IS EXPECTED TO OFFER A NUMBER OF ECONOMIC REFORMS, MANY OF WHICH ARE LONG OVERDUE. IT MUST BE EMPHASIZED, LIMITED OFFICIAL USE

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HOWEVER, THAT THE NEW ORIENTATION OFFERED BY LOPEZ, WHILE SIGNIFICANT, WILL NOT BE SUCH AS TO INVOLVE DRASTIC CHANGES IN THE BASIC NATURE OF THE ECONOMY. HE HAS PLACED HEAVY EMPHASIS ON A WAGES AND INCOME POLICY AND ON FISCAL AND MONETARY MANAGEMENT TO COMBAT INFLATION AND PROMOTE INCOME REDISTRIBUTION. HE HAS NOT, HOWEVER, GIVEN A CLEAR INDICATION OF HIS OVERALL DEVELOPMENT STRATEGY. FROM HIS REMARKS BOTH DURING AND PRIOR TO THE CAMPAIGN, IT MAY BE INFERRED THAT HE WILL REDUCE THE EMPHA-

SIS PLACED BY THE PASTRANA ADMINISTRATION ON CONSTRUCTION AND TURN MORE ATTENTION TO AGRICULTURE. SOME REFORMS ARE ALMOST CERTAIN FOR THE CONSTANT VALUE SAVINGS AND LOAN SYSTEM WHICH HAS BEEN UTILIZED TO CHANNEL RESOURCES INTO THE CONSTRUCTION INDUSTRY. THE INABILITY OF AGRICULTURE (PARTLY AS A RESULT OF CLIMATIC CONDITIONS) TO MEET INCREASED DOMESTIC DEMAND HAS BEEN A MAJOR ASPECT OF RECENT INFLATION. THIS DEVELOPMENT BOTTLENECK INVOLVES PRIMARILY THE SMALL AND MEDIUM FARMER RATHER THAN LARGE COMMERCIAL OPERATIONS. WE WOULD THUS EXPECT A SIGNIFICANTLY GREATER EFFORT BY THE NEW ADMINISTRATION TO DIRECT MORE RESOURCES INTO THIS AREA.

LOPEZ'S WAGES AND INCOMES POLICY HAS NOT YET BEEN ADEQUATELY DEFINED, BUT HE APPARENTLY WILL SEEK TO INCREASE WAGES AT THE EXPENSE OF PROFITS IN ORDER TO CORRECT RECENT DISTORTIONS RESULTING FROM INFLATION. WHILE LOPEZ IS APPARENTLY PHILOSOPHICALLY COMMITTED TO THE NEED FOR FAIRLY EXTENSIVE INCOME ADJUSTMENT, IT IS NOT CLEAR WHETHER OR NOT IN PRACTICE HE WILL, OR CAN, EFFECT ANY SIGNIFICANT ALTERATION IN THE COLOMBIAN SYSTEM#; 5#3)903" TEAM HAS BEEN STUDYING RECENT WAGE-PRICE POLICIES IN ARGENTINA AND VENEZUELA AND QUITE POSSIBLE MAY ANNOUNCE SHORTLY AFTER TAKING OFFICE A GENERAL WAGE INCREASE ACCOMPANIED BY SOME TYPE OF FREEZE ON PRICES, (SEE BOGOTA A-122). THE BUSINESS COMMUNITY EXPECTS SOME REDUCTION IN PROFIT MARGINS AND APPEARS TO ACCEPT THIS POSSIBILITY AS BOTH A POLITICAL AND ECONOMIC NECESSITY.

LOPEZ WILL INHERIT A FISCAL SITUATION WHICH IS SOMEWHAT BETTER THAN WAS EXPECTED SEVERAL MONTHS AGO, BUT WHICH WILL PRESENT AN IMMEDIATE DILEMMA REGARDING BUDGET EXECUTION. INVESTMENT EXPENDITURES BY THE PRESENT ADMINISTRATION HAVE BEEN LARGELY TO PAY PREVIOUS BILLS. EXECUTION OF THE CURRENT YEAR INVESTMENT BUDGET WILL BE LEFT ALMOST ENTIRELY FOR LOPEZ, BUT WITHOUT IMMEDIATE RESOURCE AVAILABILITY. FOR THE REMAINDER OF 1974 LIMITED OFFICIAL USE

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LOPEZ WILL PROBABLY FIND IT NECESSARY TO RESORT TO AT LEAST

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

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R 251622Z JUL 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 3968

LIMITED OFFICIAL USE SECTION 2 OF 2 BOGOTA 6577

E O 11652 NA

TAGS PFOR EGEN CO

SUBJ: PRESENT STATUS OF COLOMBIAN ECONOMY AND PROSPECTS UNDER
PRES-ELECT LOPEZ

SOME CENTRAL BANK BORROWING (DESPITE HIS CRITICISM OF DIFICIT
FINANCING POLICIES OF THE PRESENT ADMIN) IN ORDER NOT TO CREATE
HAVOC IN INVESTMENT PROGRAMS BY BOTH THE CENTRAL GOVT AND DE-
CENTRALIZED AGENCIES. (SEE BOGOTA A-137). AN AUSTERITY PROGRAM
ON INVESTMENT EXPENDITURES WILL, HOWEVER, ALMOST CERTAINLY BE
INVOKED FOR AT LEAST HIS FIRST YEAR IN OFFICE. IN THE MEANTIME,
HE WILL ATTEMPT TO INCREASE GOVT REVENUES THROUGH FISCAL AND
MONETARY REFORMS. THESE REFORMS WILL PROBABLY INCLUDE REDUCTION
OF TAX EXEMPTED INVESTMENT OPPORTUNITIES, ALTERATION OF CNBESTED
TAX PROCEDURES, REDUCTION OF SUBSIDIES FOR EXPORT PROMOTION,
GASOLINE PRICES, URBAN BUS FARES, AND WHEAT IMPORTS, REDUCTION OF THE
COMPETITIVE ADVANTAGE OF THE CONSTANT VALUE SAVINGS AND LOAN
SYSTEM IN ATTRACTING INVESTMENT AND GREATER UTILIZATION OF OPEN
MARKET TREASURY OPERATIONS SOME OF THESE ACTIONS ALSO IMPLY
INCREASED WAGES TO OFFSET INCREASED COSTS TO CONSUMERS.

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4. IMPLICATIONS FOR US POLICY

THE PRIMARY CONCERN OF THE LOPEZ ADMIN WILL BE THE RESOLUTION OF
INTERNAL PROBLEMS. AT THE SAME TIME WE WOULD EXPECT SOME EFFORT
BY LOPEZ TO DEVELOP A POSITION OF LEADER-SPOKESMAN WITHIN LA. IN
THIS SENSE HE COULD BE EXPECTED TO TAKE POSITIONS WHICH EMPHASIZE
INDEPENDENCE FROM U S INFLUENCE. IN THE THREE BROAD AREAS OF
TRADE, INVESTMENT AND AID RELATIONS, WE WOULD, NEVERTHELESS,

EXPECT MORE CHANGE IN STYLE THAN IN SUBSTANCE.

A. TRADE

GIVEN THE INCREASING ROLE OF COLOMBIA IN INTERNATIONAL TRADE, ACCESS TO THE US MARKET WILL CONTINUE TO BE OF VITAL IMPORTANCE. LOPEZ HAS PREVIOUSLY REFERRED TO THE US TRADE POLICIES AS BOTH RESTRICTIVE AND ILL DEFINED (THE LATTER WITH RESPECT TO INTERAGENCY COORDINATION). WERE THE CUT FLOWER-COUNTERVAILING DUTY ISSUE TO HAVE ARISEN DURING THE LOPEZ ADMIN, WE WOULD PROBABLY HAVE FOUND IT MUCH MORE DIFFICULT TO NEGOTIATE A SATISFACTORY SOLUTION. OTHER THAN THE POSSIBILITY OF RESTRICTIVE US ACTIONS, SPECIFIC AREAS WHICH COULD PRESENT DIFFICULTIES ARE THE UPCOMING TEXTILE NEGOTIATIONS, PL480 WHEAT AND FERROUS SCRAP AVAILABILITY, THE FUTURE OF A US SUGAR QUOTA, AND US POLICY ON RECONSTITUTION OF THE INTERNATIONAL COFFEE AGREEMENT. THE LOPEZ ADMIN CAN BE EXPECTED TO CONTINUE PRESENT GOC INTEREST IN THE STATUS OF US TRADE LEGISLATION* 03:8*8:-)6 8, - 6 53. 9* &3,34-)8"3\$ 043*343,:3 , AND IN OBTAINING GREATER ADVANTAGES FOR LDC'S IN MULTILATERAL TRADE NEGOTIATIONS. WHILE LOPEZ MAY TAKE A SOMEWHAT MORE NATIONAL-IRITIC APPROACH TO TRADE RELATIONS, WE HAVE NO REASON TO EXPECT SPECIFIC DISCRIMINATORY ACTS WHICH MIGHT IMPAIR US ACCESS TO THE COLOMBIAN MARKET.

B. INVESTMENT

FORN INVESTMENT WAS ONLY MENTIONED IN THE ELECTION CAMPAIGN. LOPEZ, WHILE INDICATING THAT COLOMBIA WILL CONTINUE TO WELCOME SUCH INVESTMENT, STRESSED THE RESPONSIBILITY OF TRANSNATIONAL CORPORATIONS FOR PROPER CONDUCT IN THE HOST COUNTRY. NO SIGNIFICANT CONTROVERSIES ARE PRESENTLY PENDING OR EXPECTED. THE PASTRANA ADMIN WILL PROBABLY BE UNABLE TO COMPLETE NEGOTIATIONS AND ISSUE MMW REGS REG TED TO PENDING MAJOR PROJECTS FOR DEVELOPMENT OF LIMITED OFFICIAL USE

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NICKEL, COAL AND NATURAL GAS DEPOSITS. US COMPANIES INVOLVED IN THESE PROJECTS HOWEVER, EXPECT THE NEW ADMIN TO BE NO MORE DIFFICULT, AND PERHAPS EASIER, TO DEAL WITH THAN PRESENT ONE. (SEE BOGOTA A-135). APART FROM THESE PENDING CASES, LOPEZ MAY BE SOMEWHAT TOUCHER IN NEGOTIATING WITH FORN INVESTORS THAN WAS PASTRANA. MINOR IRRITATIONS WILL PROBABLY ARISE, BUT WE EXPECT COLOMBIA TO REMAIN POLITICALLY ATTRACTIVE FOR FORN INVESTMENT. AS PROGRESS MAY BE MADE IN FURTHER DEFINING ANDEAN PACT MARKETS AND REGS, IT SHOULD ALSO BECOME MORE ATTRACTIVE ECONOMICALLY.

C. AID PROGRAM

THE CHALLENGE FACING OUR BILATERAL AID PROGRAM WILL BE WHAT THE US CAN DO FOR COLOMBIA'S ECONOMIC DEVELOPMENT THAT OTHER DONORS CAN NOT DO OR THAT THE COLOMBIANS CAN NOT DO FOR THEMSELVES.

THE LACK OF FOREIGN EXCHANGE IS PRESENTLY NOT THE PRINCIPAL
CONSTRAINT TO FASTER COLOMBIAN ECONOMIC DEVELOPMENT. WITH MUL-
TILATERAL AID DONORS PROGRAMMING HEAVY DISBURSEMENT INCREASES

ALTHOUGH TO SOME EXTENT CONTINGENT ON RESOLUTION OF COLOMBIAN
FISCAL PROBLEMSGKN THE ROLE OF AID AS A SOURCE OF LARGE RESOURCE
TRANSFERS NO LONGER SEEMS APPROPRIATE. WE ANTICIPATE SIGNIFICANT
SHIFTS IN BOTH THE SIZE AND ORIENTATION OF FUTURE PRMYRAMS.
WHILE FULL PROGRAM DEVELOPMENT MUST AWAIT CONSULTATIONS WCUH THE
NEW LOPEZ ADMIN, WE ANTICIPATE AN AID LEVEL OF MUCH MORE MODEST
PROPORTIONS AND A ROLE DESIGNED TO ASSIST WITH SPECIFIC DEVELOPMENT
BOTTLENECKS. IN LINE WITH PRELIMINARY INDICATIONS FROM LOPEZ
REPS, WE EXPECT THE NEW ADMIN TO PROCEED SLOWLY AND CAUTIOUSLY
IN DEVELOPING ITS REQUESTS FOR NEW AID LOANS. IN THIS CONNECTION
THERE MAY BE REDUCED EMPHASIS ON LOCAL COST FINANCING. VAKY

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